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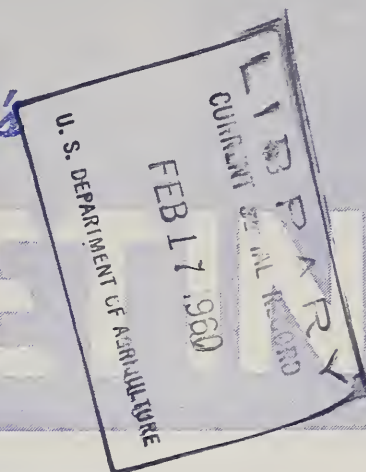
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Fred W. Forest
MARKET ADMINISTRATOR

Market Administrator's

BULLETIN



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Government And The Dairy Industry

Excerpts from a talk by H. L. Forest, Director, Dairy Division at annual meeting of American Farm Bureau Federation at Chicago, Illinois, December 14, 1959

The topic I have been assigned, "Government and the Dairy Industry", embraces a field of highly diversified activities related to dairying in which the Federal Government participates. A whole gamut of government bureaus and services deal with the dairy industry and its problems. We have Anti-trust, Fair Trade, Pure Food and Drug legislation, just to mention a few of the general activities of the government affecting the dairy industry, but I am going to confine myself today to the activities more closely related to the Department of Agriculture.

The number and variety of these government programs affecting dairying is not surprising when we consider the complicated, dynamic, economic society in which we live. Nor is it surprising when we consider the diversity of the dairy industry itself. The processing and distributing of milk and other dairy products is performed by operators who specialize to a large extent in certain functions of processing or distribution. We have plants which specialize in handling fluid milk products, those which specialize in ice cream manufacture and those which make cheese and butter.

In the farm production of milk we have dairymen who specialize in the production of milk for fluid markets and others who produce milk for processing into dairy products. Some farmers sell farm-separated cream rather than whole milk but that number is rapidly diminishing. Since the circumstances under which milk

is produced vary, we have many different production and marketing problems at the farm level.

There are problems peculiar to each of these segments of the dairy industry. Government functions to deal with the problems are similarly specialized in many instances.

The Federal milk order program has as its purpose the maintenance of minimum prices which will assure an adequate supply for consumers. The price support program has the same objective with support prices established within a range of 75 to 90 percent of parity. Obviously, Congress might have set other goals. The objective, for example, might have been a price to maximize dairy farmers' returns regardless of what consumers wanted, or to equal cost of production, or to equal 100 percent of parity. However, in granting the authority for these price programs, Congress **did specify** only one standard and that was that price levels should assure consumers an adequate supply and that is the mandate under which the Department of Agriculture operates these programs.

Although the price support program for milk and butterfat and the Federal milk order program have this common objective, there are important differences in the way they operate. Under present legislation governing the price support program, adequacy of supply is significant only above 75 percent of parity. The law sets a minimum support level of 75 percent
(continued on the back page)

The Dairy Situation

Prices for several dairy products increased more this fall than in several years. This reflects some continued growth in total demand, a slight decline in annual rate of milk production in the past two calendar years, and normal seasonal declines in milk output. Milk production has now begun to rise seasonally and will increase to the annual flush output next spring.

Milk production the first 11 months of this year was 0.9 billion pounds, 0.8 percent below the same period of 1958. Nearly three-fourths of the decrease occurred in the 4 months, May-August. After about equalling the 1958 level in October, output was below a year earlier in November again reflecting mainly unseasonably severe weather in important dairy areas. The number of milk cows probably has not declined as much this year as last, but the rate of production of milk per cow was depressed in midsummer by drought and short pastures in part of the main northern dairy belt.

An important factor bringing about a bigger decrease in milk cow numbers in 1958 and 1959 than in other recent years was the high price of beef cattle, compared with prices of dairy products. Recently, this relationship has begun to change. Dairy prices to farmers in November averaged 3 percent above a year earlier, while the prices for all beef cattle were down 10 percent. From July to November 1959, the wholesale price of canners and cutters dropped 24 percent, the largest decline for these months since 1952, when they went down 26 percent. The price this November was 26 percent below November 1958.



Columbus

MARKET FACTS FOR EASY REFERENCE

PRICE SUMMARY

Producers' Uniform Price (3.5%)	
Producers' Uniform Price (4%)	
Class I (3.5%)	
Class II (3.5%)	
Class III (3.5%)	
Class IV (3.5%)	
Producer Butterfat Differential for each 1/10%	

Dec. 1959	Nov. 1959	Dec. 1958
--------------	--------------	--------------

\$4.85	\$5.11	\$4.30*
5.25	5.51	4.665
4.758	4.696	4.401
4.358	4.296	4.001
3.854	3.927	3.901
3.155	3.228	2.977
.080	.080	.073

UTILIZATION SUMMARY

Percent of Producer Milk in Class I.....	
" " " B.F. " " I.....	
" " " Milk " " II.....	
" " " B.F. " " II.....	
" " " Milk " " III.....	
" " " B.F. " " III.....	
" " " Milk " " IV.....	
" " " B.F. " " IV.....	

83.4	90.6	85.1
76.9	84.0	78.8
6.2	6.6	8.8
2.1	2.6	4.2
2.1	1.3	1.9
3.1	3.1	2.6
8.3	1.5	4.2
17.9	10.3	14.4

PRODUCTION SUMMARY

Total Pounds of Producer Milk Delivered	
Average Daily Class I Producer Milk	
Total Number of Producers	
Average Daily Production per Producer	
Average Butterfat Test	
Total Value of Producer Milk at Test	
Income per Producer (7 Day Average)	

27,160,559	25,350,698	23,204,810
666,678	765,061	636,953
1,693	1,709	1,712
518	499	437
4.01	4.0	4.01
\$1,344,263.99	\$1,272,220.92	\$1,083,803.08
\$179.29	\$173.70	\$142.95

GROSS CLASS USE (Pounds)

Class I Skim	
" I B.F.	
" I Milk	
" II Skim	
" II B.F.	
" II Milk	

21,833,363	22,107,930	19,029,512
836,688	852,655	733,134
22,670,051	22,960,585	19,762,646
1,707,170	1,804,671	2,032,749
23,397	26,392	39,058
1,730,567	1,831,063	2,071,807

AVERAGE DAILY SALES (Quarts)

Milk	
Buttermilk	
Chocolate	
Skim	
Cream	

296,219	295,454	268,193
4,718	4,890	4,587
14,707	16,352	12,155
11,372	11,245	9,245
9,263	8,827	8,503

*Fall production payment 51 cents per cwt. additional

COMPARATIVE STATISTICS



COLUMBUS MARKETING AREA



Dec. 1950-59

Year	Receipts from Producers	Average Butter-fat Test	Percentage of Producer Milk in Each Class				Uniform Producer Price (3.5%)	Class prices at 3.5%				Number of Producers	Daily Average Production
			Class I	Class II	Class III	Class IV		Class I	Class II	Class III	Class IV		
1950.....	15,699,222	4.31	81.1	16.3	2.6	—	4.44	4.509	4.109	3.299	—	2,149	236
1951.....	15,677,571	4.25	84.9	13.5	1.6	—	5.15	5.191	4.792	4.017	—	2,108	240
1952.....	18,421,239	4.17	78.8	16.6	4.6	—	4.58	4.736	4.336	3.659	—	2,209	269
1953.....	22,066,687	4.10	73.5	13.9	12.6	—	4.26	4.472	4.072	3.466	—	2,252	316
1954.....	22,456,753	4.05	77.2	7.9	4.1	10.8	4.06	4.27	3.87	3.87	3.276	2,152	337
1955.....	23,609,212	4.03	76.9	8.9	4.4	9.8	4.01	4.188	3.788	3.788	3.161	2,096	363
1956.....	23,637,293	3.88	81.0	9.7	3.3	6.0	4.21	4.365	3.965	3.965	3.236	1,966	388
1957.....	24,923,644	3.93	79.9	7.4	4.0	8.7	4.24	4.419	4.019	3.919	3.096	1,863	432
1958.....	23,204,810	4.01	85.1	8.8	1.9	4.2	4.30	4.401	4.001	3.901	2.977	1,712	437
1959.....	27,160,559	4.01	83.4	6.2	2.1	8.3	4.85	4.758	4.358	3.854	3.155	1,693	518

**PRICES FOR SOME SLAUGHTER CLASSES OF CATTLE
DECLINED CONSIDERABLY MORE THIS FALL THAN LAST**

The price to farmers for beef cattle has a considerable influence on the level of milk production. A change in the levels of beef prices, compared with milk prices is one important basis for judging possible future changes in milk production.

A large proportion of cull dairy cows fall in the category of "cutter and canner", as used, for example, in the Chicago Wholesale Market. The price per hundred pounds for this slaughter class declined considerably less than seasonally during the second half of 1958, and then showed a slight seasonal rise to the late spring of 1959. Prices in June 1959 were the highest for that month since 1952. Beginning in July, however, the price has been declining, and by November was \$12.47 per hundred pounds, compared with \$16.80 a year earlier, a decline of about 26 percent. In July, prices were only about 3

percent below a year earlier. The July-November decline of 24 percent was the largest since 1952, when it was 26 percent. In 1952, however, prices were higher in the first half of the year than they were in the first half of 1959. Substantial declines have occurred also for some slaughter classes of cattle. In November 1959 the average price received by farmers for all classes of beef cattle was \$20 per hundredweight, a decline of 10 percent from a year earlier. The average price paid by farmers for feeder and stocker cattle and calves was \$23.30 in November of this year, compared with \$26.10 a year earlier.

The price for the canner and cutter class is of more significance to dairymen in deciding whether to cull more or less heavily. This price measures the carcass value (scrap value) of a productive dairy animal, which to a dairyman is a capital

investment. When there is no change in the economic position of prospects for producing milk, the price per head for milk cows usually moves closely with changes in the carcass value. This is indicated by prices of cutters and canners at a wholesale market. It is quite significant, therefore, that the average price per head received by farmers for milk cows in November 1959 was \$223, compared with \$222 a year earlier. This stability has occurred despite the drop of \$4.33 per hundredweight (\$30 to \$40 or more per head) in the carcass value as indicated by the cutter and canner market. Although the price received by farmers for milk cows now is equal to that of a year earlier, it has shown some decline also since July, but probably less than 1/3 of what might be expected from the drop in the carcass value itself.

Milk Production Declined Less Than Seasonally Since Last Spring

The number of cows kept by farmers declined more in 1958 than in any year since 1948, largely because of the comparatively sharp rise in price of beef cattle in that year. Some further increase in prices of beef cattle took place through the first half of 1959. The reduction in numbers of milk cows in the year ending June 1959 was larger than the average of recent years but smaller than in 1958. During the second half of 1959, prices for dairy products have shown more strength, in comparison with supports, than at any time since 1952. Prices for some classes of beef cattle, on the other hand, have declined more than seasonally this fall,

and the price of hogs is considerably below a year earlier. This would be expected to slow the rate of reduction in number of milk cows on farms.

Numbers of milk cows have been declining for 15 years. The only exception was 1953, when there was a slight increase. From 1954 through 1957, rate of milk production per cow increased enough to result in successively new high milk production records. The decline in numbers during 1958 more than offset the further increase in production per cow, and the milk flow declined slightly. While the decrease in numbers during 1959 apparently was significantly less than in 1958, produc-

tion of milk per cow was restricted by drought in several months, and another slight decline in milk production is being recorded this year. Total production of milk was less than a year earlier during each of the first 11 months of 1959. The declines were minor in most months. More than three fourths of the net reduction in output during the first 11 months was accounted for by the four months of May through August.

Part of the reduction in milk output in May through August from a year earlier resulted from a further extension of the seasonal shift in milk output from late spring and summer to fall and winter.

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THE
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Government and . . .

(Continued from page one)

of parity regardless of supply and demand conditions. Present legislation provides no such minimum under the Federal milk orders. There is no authorization to maintain any specified minimum price level in Federal order markets if such price is "unreasonable" in terms of conditions of supply and demand in the market.

Under the price support program, price objectives are national in scope, whereas under Federal milk marketing orders they are related to the needs of local markets. Our concept of what is local of course has changed considerably with better roads and improved transportation equipment.

Price is the only device authorized by Congress to be used in Federal milk orders to regulate the marketing of milk. There is no authority to limit the quantity to be marketed. There is no provision for taking part of the milk produced out of the channels of trade. There is no fund from which to guarantee a set price. Without such controls, Federal milk orders cannot be used to maintain artificially high levels of prices over a period of time and over broad areas.

However, these orders can correct price disparity in local situations and they can maintain prices which will direct milk into the best available markets. Federal milk orders provide the opportunity for getting the best farm price consistent with conditions of supply and demand. But they cannot directly control the supply or demand for milk in an area.

The price support program acts as insurance against a too rapid decline in prices which would force too many dairymen to give up milk production. The

Market Quotations

Dec.
1959

12 MIDWEST CONDENSERIES 3.5% per Cwt.	\$3.154
5 CONDENSERIES (Cincinnati) 3.5% per Cwt.	2.97
5 CONDENSERIES (North Central Ohio) 3.5% per Cwt.	3.012
2 CONDENSERIES (Toledo) 3.5% per Cwt.	2.944
4 CONDENSERIES (Tri-State) 3.5% per Cwt.	3.100
Evaporated Milk Code Price, 3.5% per Cwt.	2.955
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Cincinnati)	3.2153
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Columbus)	3.205
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Dayton)	3.229
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Toledo-Tri-State)	3.103
Average Weekly Cheddars price per lb.	.34750
Average price per lb. non-fat dry milk solids, roller process delivered Chicago	.14175
Average price per lb. 92-score butter at Chicago (Equivalent Price)	.61870
Average carlot prices non-fat dry milk solids, roller and spray process, f.o.b. manufacturing plant	.1319

amount of insurance which is provided by price support legislation depends upon what the public is prepared to invest in order to be assured of a continuing supply adequate to meet current and prospective needs.

The Federal milk order program has little effect on the national price level since it has no means of authority for removing excess supplies of milk from the total supply. It does, however, provide assurance that supplies of milk will be distributed where they are needed and consequently where they will bring the best price.

Federal milk orders direct the flow of milk to fluid markets in an orderly manner. When a fluid milk market needs more milk both the Class I price and the blend price to farmers rise. When supplies increase relative to fluid sales under these Federal orders the price goes down to call a halt to that trend.

The necessity for maintaining price align-

ment among Federal order markets to achieve efficient utilization of milk and prevent uneconomic movements is a practical example of government responsibility which must be exercised in the public interest. Price levels established and maintained without government intervention are not subject to the same restraints.

Under present legislation, the milk consumer's welfare is a fundamental objective of the price policies under both the price support and the Federal milk marketing order program. The Federal orders establish minimum prices which direct the available supply of milk to markets as it is needed. The price support program provides a minimum price which will maintain an adequate supply on a national basis.

When we consider the many government programs related to dairying, it may appear the public has made a large investment in this essential commodity. But it is an investment in which the public expects—and gets—great dividends.